

Message Text

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ACTION EUR-12

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FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7732
INFO AMEMBASSY PARIS
AMCONSUL MONTREAL
ALL OTHER CANADIAN CONSULATES POUCH

UNCLAS SECTION 01 OF 02 OTTAWA 03021

PARIS FOR USOECD

DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: ECRP, EFIN, ECON, CA
SUBJECT: CERP 0102 FIRST QUARTER 1978 CANADIAN BALANCE
OF PAYMENTS

REF: OTTAWA 2253

1. SUMMARY. SEASONALLY ADJUSTED CURRENT ACCOUNT DEFICIT
NARROWED TO CDOLS 637 MILLION IN FIRST QUARTER 1978 DOWN
FROM CDOLS 803 MILLION DEFICIT IN FOURTH QUARTER 1977.
REDUCTION IN CURRENT ACCOUNT DEFICIT ATTRIBUTABLE TO SHARP
EXPANSION OF TRADE SURPLUS. DEFICIT ON SERVICES INCREASED
MAINLY DUE TO LARGER TRAVEL DEFICIT, AS DEFICIT ON INTEREST
AND DIVIDENDS PAYMENTS FELL. RISE IN NEW SECURITY ISSUES
ABROAD GENERATED INCREASE IN NET LONG TERM CAPITAL INFLOWS;
NET DIRECT INVESTMENT INFLOW WAS NEGATIVE. NET SHORT TERM
CAPITAL FLOWS SWUNG STRONGLY NEGATIVE IN FIRST QUARTER,
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ALTHOUGH BALANCE OF PAYMENTS STATISTICS OVERSTATE MAGNI-
TITUDE OF SHIFT. OFFICIAL RESERVES DECLINED BY CDOLS 750
MILLION IN QUARTER, DESPITE ADDITION TO RESERVES OF CDOLS
844 MILLION CANADIAN DOLLAR COUNTERPART OF U.S.DOLS 750
DRAWDOWN OF GOC STANDBY CREDIT WITH CANADIAN BANKS. END
SUMMARY.

2. MERCHANDISE TRADE BALANCE: SEASONALLY ADJUSTED (SA) TRADE SURPLUS WAS CDOLS 1.4 BILLION IN FIRST QUARTER, UP FROM CDOLS 1.1 BILLION SURPLUS IN FOURTH QUARTER OF 1977. VALUE OF EXPORTS ROSE 5.7 PERCENT FROM PREVIOUS QUARTER TO CDOLS 12.5 BILLION, WHILE IMPORT VALUE CLIMBED 3.7 PERCENT TO CDOLS 11.1 BILLION. TRADE SURPLUS RAN AT ANNUAL RATE OF CDOLS 5.6 BILLION IN FIRST QUARTER AND HAS MORE THAN ACCOUNTED FOR NARROWING OF CURRENT ACCOUNT DEFICIT. HOWEVER, SURPLUS DECLINED SHARPLY IN APRIL AND RAN AT ANNUAL RATE OF CDOLS 4.7 BILLION FOR FIRST FOUR MONTHS OF YEAR (SEE OTTAWA 2744).

3. SERVICES: SEASONALLY ADJUSTED SERVICES DEFICIT INCREASED BY CDOLS 92 MILLION TO CDOLS 2.1 BILLION IN FIRST QUARTER. TRAVEL DEFICIT INCREASED BY CDOLS 117 MILLION TO CDOLS 471 MILLION, WHILE DEFICIT ON INTEREST AND DIVIDEND. PAYMENTS FELL TO CDOLS 939 MILLION, FROM CDOLS 995 MILLION IN PREVIOUS QUARTER.

4. CURRENT ACCOUNT: SEASONALLY ADJUSTED DEFICIT ON GOODS AND SERVICES SHRANK BY CDOLS 192 MILLION TO CDOLS 684 MILLION IN FIRST QUARTER. SLIGHT DECLINE IN SURPLUS ON TRANSFER PAYMENTS PRODUCED CURRENT ACCOUNT DEFICIT OF CDOLS 637 MILLION, COMPARED WITH CDOLS 803 MILLION DEFICIT IN FOURTH QUARTER 1977.

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5. CAPITAL ACCOUNT; LONG TERM CAPITAL: FOLLOWING DECLINE TO CDOLS 441 MILLION IN FOURTH QUARTER 1977, NET INFLOWS OF LONG TERM CAPITAL REBOUNDED TO CDOLS 673 MILLION. NONETHELESS, LONG TERM CAPITAL INFLOWS IN FIRST QUARTER WERE WELL BELOW LEVELS RECORDED IN ALL BUT ONE OF THE LAST EIGHT QUARTERS. INFLOWS IN QUARTER WERE DOMINATED BY NEW SECURITY ISSUES ABROAD (CDOLS 1.4 BILLION). AT CDOLS 1.1 BILLION, NET INFLOWS OF PORTFOLIO CAPITAL WERE VIRTUALLY UNCHANGED FROM PREVIOUS QUARTER. NET FOREIGN DIRECT INVESTMENT FLOWS WERE NEGATIVE AS CANADIAN INVESTMENT ABROAD (CDOLS 335 MILLION) SURPASSED FOREIGN INVESTMENT IN CANADA (CDOLS 175 MILLION).

6. SHORT TERM CAPITAL: SHORT TERM CAPITAL MOVEMENTS SHIFTED FROM NET INFLOW OF CDOLS 1.1 BILLION IN FOURTH QUARTER 1977 TO NET OUTFLOW OF CDOLS 457 MILLION - A NEGATIVE SWING OF CDOLS 1.6 BILLION. HOWEVER, MAGNITUDE OF SHORT TERM CAPITAL OUTFLOW IN FIRST QUARTER IS OVERSTATED IN BALANCE OF PAYMENTS ACCOUNTS DUE TO GOC'S TREATMENT OF CANADIAN DOLLAR COUNTERPART (DOLS 844 MILLION) OF U.S.DOLS 750 MILLION DRAWDOWN BY GOC ON STANDBY CREDIT ARRANGED THROUGH CHARTERED BANK CONSORTIUM. DRAWDOWN IS INCLUDED

IN OUTFLOW OF "OTHER SHORT TERM CAPITAL" AND IS ALSO SHOWN AS AN INCREASE IN OFFICIAL MONETARY LIABILITIES - A CAPITAL INFLOW SHOWN "BELOW THE LINE" AS A NON-AUTONOMOUS BALANCING ITEM. THUS, RECORDING OF DRAWDOWN HAS EFFECT OF INCREASING RECORDED NET OUTFLOW OF SHORT TERM CAPITAL.

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7. SHORT TERM CAPITAL OUTFLOW ALSO ATTRIBUTABLE TO CDOLS 350 MILLION NET REDUCTION IN NON-RESIDENTS' HOLDINGS OF CANADIAN SHORT TERM SECURITIES. SINCE "HEDGED" SHORT TERM INTEREST RATE U.S./CANADA DIFFERENTIAL MOVED ONLY MINIMALLY IN FAVOR OF U.S. ON AVERAGE OVER QUARTER, MUCH OF OUTFLOW MAY HAVE BEEN "UNCOVERED" OR SPECULATIVE IN NATURE, REFLECTING ADVERSE EXCHANGE RATE EXPECTATIONS. HOWEVER, DECLINE IN "ERRORS AND OMISSIONS" OUTFLOW TO CDOLS 393 MILLION IN FIRST QUARTER FROM CDOLS 996 MILLION IN PREVIOUS QUARTER WOULD NOT SUPPORT SPECULATION HYPOTHESIS SINCE SHIFT TOWARD SMALLER OUTFLOW WOULD INDICATE EASING OF SPECULATIVE PRESSURES.

8. TOTAL NET CAPITAL INFLOW WAS CDOLS 216 MILLION IN FIRST QUARTER, AND COMBINED WITH "ERRORS AND OMISSIONS" OUTFLOW OF CDOLS 393 MILLION AND CURRENT ACCOUNT DEFICIT OF CDOLS 1.42 BILLION (NSA) PRODUCED "FINANCING GAP" OF CDOLS 1.6 BILLION. GAP WAS FILLED BY CDOLS 750 MILLION DRAWDOWN IN RESERVES AND CDOLS 844 MILLION INCREASE IN OFFICIAL MONETARY LIABILITIES REPRESENTING GOC DRAWDOWN

ON STANDBY WITH CHARTERED BANKS. AS NOTED, DRAWDOWN IS
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SHOWN SEPARATELY "BELOW THE LINE" TO MAKE CLEAR THAT WHILE
RESERVES ONLY DECLINED BY CDOLS 750 MILLION, NET INTER-
VENTION TO SUPPORT DOLLAR TOTALLED CDOLS 1.6 BILLION.

9. TABLE: BALANCE OF PAYMENTS FIRST QUARTER, 1978 AND
FOURTH QUARTER, 1977. BRACKETS () INDICATE NEGATIVE
TOTALS. MILLIONS OF CANADIAN DOLLARS.

A. CURRENT ACCOUNT BALANCE. SEASONALLY ADJUSTED.

	----- 1978I	1977IV
MERCHANDISE TRADE BALANCE	1,383	1,109
SERVICES	(2,067)	(1,975)
OF WHICH:		
TRAVEL	(471)	(354)
INTEREST AND DIVIDENDS	(939)	(995)
CURRENT ACCOUNT BALANCE	(637)	(803)

B. CAPITAL ACCOUNT BALANCE. NOT SEASONALLY ADJUSTED.

	----- 1978I	1977IV
LONG TERM CAPITAL	673	441
OF WHICH:		
DIRECT INVESTMENT	(160)	(180)
PORTFOLIO	1,112	1,059
OF WHICH:		
-- GROSS NEW SECURITY ISSUES	1,380	1,107
SHORT TERM CAPITAL	(457)	1,103
TOTAL NET CAPITAL	216	1,544
NET ERRORS AND OMISSIONS	(393)	(996)

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CURRENT ACCOUNT BALANCE (NSA)	(1,417)	(839)
CAPITAL ACCOUNT BALANCE (NSA)		
(INCLUDING ERRORS & OMISSIONS):	(177)	548
TOTAL OFFICIAL PAYMENTS FINANCING		
REQUIREMENT	1,594	291

PAYMENTS FINANCING REQUIREMENT
MET BY:

OFFICIAL INTERNATIONAL RESERVES	750	291
OFFICIAL MONETARY LIABILITIES	844	---
TOTAL	1,594	291

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